

# STUDENT LOANS



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## SHOULD I BORROW A STUDENT LOAN?

After exhausting other aid and employment opportunities, student loans can be a good option to cover educational expenses. When borrowing, remember that unlike grants or scholarships, which do not need to be repaid, student loans must be repaid with interest.

This brochure covers several different federal and private education loan options. Federal loans are usually less expensive, have more repayment options, offer deferment and forbearance options to postpone payments and have loan forgiveness opportunities not available for private loans. Private loans are best used as a last resort to finance any expenses that remain after family resources, scholarships, grants, institutional aid, student employment and federal loans have been exhausted.

### HOW MUCH TO BORROW?

Don't borrow more than is needed! Consider what portion of future paychecks will be needed to repay loans. Repayment begins shortly after a student graduates, withdraws from school or drops below half-time enrollment.



I don't need to worry about my student loans while I'm in school.

**MYTH:**

The biggest mistake you can make is to blindly take out student loans without considering your major or future career – or without finding ways to minimize your debt while in school.

**TRUTH:**

**MYTH:**

I should borrow as much as I can.



Student loans are a helpful way to get an education that might seem unaffordable initially. Be informed before you borrow, take out the minimum you need, and your future self will thank you!

**TRUTH:**



**MYTH:**

I have to pay back 100% of my student loans

Depending on the type of loan and your profession, there are student loan forgiveness programs that can help you pay back a portion or all of your student loans.

**TRUTH:**

**MYTH:**

I need to pay someone to help me with my student loans.



**TRUTH:**

You should never have to pay someone to get help with your student loans. Contact the financial aid office at your college for assistance.

## KNOW YOUR LOANS: FEDERAL VS. PRIVATE

### FEDERAL LOANS

Federal loans provide students and families the opportunity to borrow money to help pay for college through programs supported by the federal government. Federal student loan options differ depending on whether you are an undergraduate student or a graduate student.

#### Undergraduate student loan options include:

- **Direct Subsidized Loans** – Direct Subsidized Loans are restricted to borrowers with demonstrated financial need. Eligibility is determined by the Free Application for Federal Student Aid (FAFSA) and, if awarded, the federal government pays the interest while the student is in school. Borrowers must also complete a Master Promissory Note (MPN) and an Entrance Counseling.
- **Direct Unsubsidized Loans** – Direct Unsubsidized Loans are not awarded based on financial need, and students are responsible for paying the interest charged throughout the entire life of the loan. Students must complete the FAFSA, a MPN and an Entrance Counseling to apply.
- **Perkins Loans** – Perkins Loans are restricted to borrowers with demonstrated financial need who are attending participating institutions. Students must complete the FAFSA and a MPN to apply.

- **Direct PLUS Loans** – Direct PLUS Loans are available to **parents of dependent undergraduate students** and are subject to credit checks. If a parent borrower is denied, the student is eligible for additional Direct Unsubsidized Loan amounts. Parents must complete an application and a MPN to apply.

#### Graduate student loan options include:

- **Direct PLUS Loans** – Direct PLUS Loans are available to graduate students and are subject to credit checks. Borrowers must complete an application and a MPN with the college to apply.
- **Perkins Loan** – Perkins Loans are restricted to borrowers with demonstrated financial need who are attending participating institutions. Students must complete the FAFSA and a MNP to apply.

*The Perkins Loan is set to expire on 9/30/17. Absent congressional action, no loans to new borrowers can be made after this date.*

**For more information, including eligibility, interest rates and loan fees, go to <https://studentaid.ed.gov>**

### PRIVATE LOANS

Private education loans are nonfederal loans offered by many major banking institutions, credit unions and education loan providers. The loans are not federally insured and may be more costly than federal loans.

If a student or family is interested in a private education loan, start by contacting the financial aid office at the student's school for assistance. Borrowers should carefully evaluate the terms and conditions of the various private education loans before applying.

Concerns about a private student loan can be addressed by the Consumer Financial Protection Bureau's private student loan ombudsman.

**Website: [www.consumerfinance.gov](http://www.consumerfinance.gov)**  
**Phone: 855-411-2372**

## KEY TERMS

### PRINCIPAL

The total amount of money borrowed plus any interest that has been capitalized.

### INTEREST

A loan expense charged for the use of borrowed money. Interest is paid by a borrower to a lender. The expense is calculated as a percentage of the unpaid principal amount of the loan. The interest rate on federal loans is fixed.

### COMPOUND INTEREST

Interest added to the principal of a loan so that the added interest also accrues interest from then on. This addition of interest to the principal is called compounding.

### ACCRUED INTEREST

The interest that has accumulated on a loan since the last interest payment up to, but not including, the settlement date.

### GRACE PERIOD

A period of time after borrowers graduate, leave school or drop below half-time enrollment where they are not required to make payments on certain federal student loans. Some federal student loans will accrue interest during the grace period that, if the interest is unpaid, will be added to the principal balance of the loan when the repayment period begins.

### FEES

A percentage of the total loan amount that is deducted proportionately from the loan. This means the money received will be less than the amount borrowed.

### LOAN LIMITS

The maximum loan amount that an applicant is eligible to borrow. There are loan limits on yearly amounts based on a student's grade level as well as loan limits on the total aggregate amount that applicants are eligible to borrow in a lifetime.

### IN-SCHOOL DEFERMENT

A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on federal subsidized and Perkins loans.

### MASTER PROMISSORY NOTE (MPN)

The binding legal document that must be signed when receiving a federal student loan. It lists the terms and conditions under which a student agrees to repay the loan and explains the borrower's rights and responsibilities.

### LOAN REPAYMENT

For most federal student loans, repayment begins after the grace period. For the Direct PLUS loan for parents, repayment begins after the loan is fully disbursed unless the parent borrower requests postponement of repayment.

### LOAN FORGIVENESS

Federal and state loan repayment, forgiveness and cancellation programs are available for borrowers who work in professional shortage areas.

Detailed information on loan forgiveness qualifications can be found at:  
**[IowaCollegeAid.gov](http://IowaCollegeAid.gov)**



**All federal loans require that the student borrower, or the student for whom the loan is borrowed, is enrolled at least half time.**



**Making interest payments on Direct Unsubsidized Loans and Direct PLUS Loans during school can save you thousands of dollars in the long run.**